Unlocking the Potential of Private Investments in Defined Contribution Plans

Leveraging Familiar Solutions to Provide Access to Private Market Exposures

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Forewords

Private markets represent important asset classes (*e.g.*, private real estate, private credit) to a comprehensive asset allocation and make sense within target-date products, managed accounts, or other asset allocation solutions/services, which are referred to in this white paper as participant investment options. Industry firms are working to build strategies or adjust existing strategies (*e.g.*, by offering greater liquidity) to ensure they meet the requirements and expectations of defined contribution (DC) plans and provide an important solution for investors. Plan sponsors evaluating such strategies will face an evolving landscape as new investment options integrating private market access become available and there is interest by the Executive branch to provide supportive guidance to encourage use of a broader set of asset classes to provide differentiated participant outcomes.

Cerulli is grateful for the opportunity to collaborate with DCALTA and its member organizations on this research. We extend our sincere thanks to the following firms for generously sharing their research insights, dedicating their time, and providing financial support for this research: AllianceBernstein, CAIS, Empower, Great Gray, Nuveen, Partners Group, Principal Financial Group, and StepStone Group.

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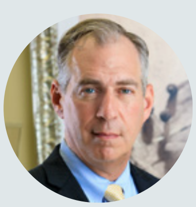
CERULLI ASSOCIATES

Since 2015, the Defined Contribution Alternatives Association (DCALTA) has educated fiduciaries and other stakeholders on the benefits of integrating alternative investments into DC plans to enhance and secure retirement outcomes. Our collective voice represents every facet of the U.S. retirement ecosystem and affirms that fiduciaries should have access to a broad set of opportunities when selecting participant options.

Public and private markets complement one another and should be evaluated across the full spectrum of fixed income and equity investments. DCALTA is proud to co-release this paper, fostering innovation and advancing the thoughtful integration of private market investments in DC plans.



Jonathan Epstein
Founder and President
DCALTA

DCALTA 10 YEARS | Defined Contribution Alternatives Association

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Executive Summary

Stakeholders across the DC ecosystem are engaged in product and process development and education efforts aimed at meeting the intricate retirement needs of plan participants by providing access to and driving adoption of private market strategies that can offer potential outcomes that are unattainable in public stock and bond markets alone.

Private market strategies should be embedded as part of a participant investment option rather than offered as a standalone option on DC plan menus. Collective investment trusts (CITs) are likely to become the *de facto* structure for accessing private market strategies in DC plans.

The industry is poised to overcome key operational hurdles to the inclusion of private market strategies in DC plans via a focus on fitting them into the same framework as public market strategies. Trust companies, asset managers, and private markets managers have developed, and continue to refine, solutions that will provide participants with liquidity by managing the gating and illiquidity features of private market strategies that is embedded in a professionally managed PIO.

The DC industry should engage in myth busting, as there are shared misconceptions (*e.g.*, private market investments will be standalone investment options) and concerns about the use of private markets in DC plans. It is critical for the industry to begin communicating that these solutions exist and are professionally managed products with sensible allocations that will allow participants to access their assets when they need them to meet their retirement obligations.

Industry stakeholders considering the addition of private market solutions to professionally managed assets can look to examples from other institutional investors in the U.S. market (*e.g.*, state and local defined benefit plans) and retirement schemes in international markets (*e.g.*, Australia, United Kingdom, Netherlands) where such efforts are recognized as highly successful and beneficial to understanding best practices and potential outcomes.

Introduction

Cerulli and DCALTA collaborated on this comprehensive white paper to take the pulse of the current state of private markets strategies in defined contribution (DC) plans. This paper was guided by the oversight of a diverse selection of eight contributor firms that represent different parts of the retirement ecosystem. The research discusses the inclusion of private market investments in DC plans, focusing on key investor benefits, hurdles, opportunities, and operational implementation action steps. As part of the project, during 2Q 2025 Cerulli interviewed more than 35 industry executives, including plan sponsors, recordkeepers, intermediaries (*e.g.*, investment consultants and retirement plan advisors), CIT trust companies, and public and private asset managers. Cerulli also used its existing market sizing and quantitative survey data to publish this research.

Asset managers, trust companies, and recordkeepers are innovating rapidly to provide private market solutions to DC plan sponsors. As of this writing, several firms have launched solutions designed to provide plan participants with access to private markets through PIOs, with more expected to come.

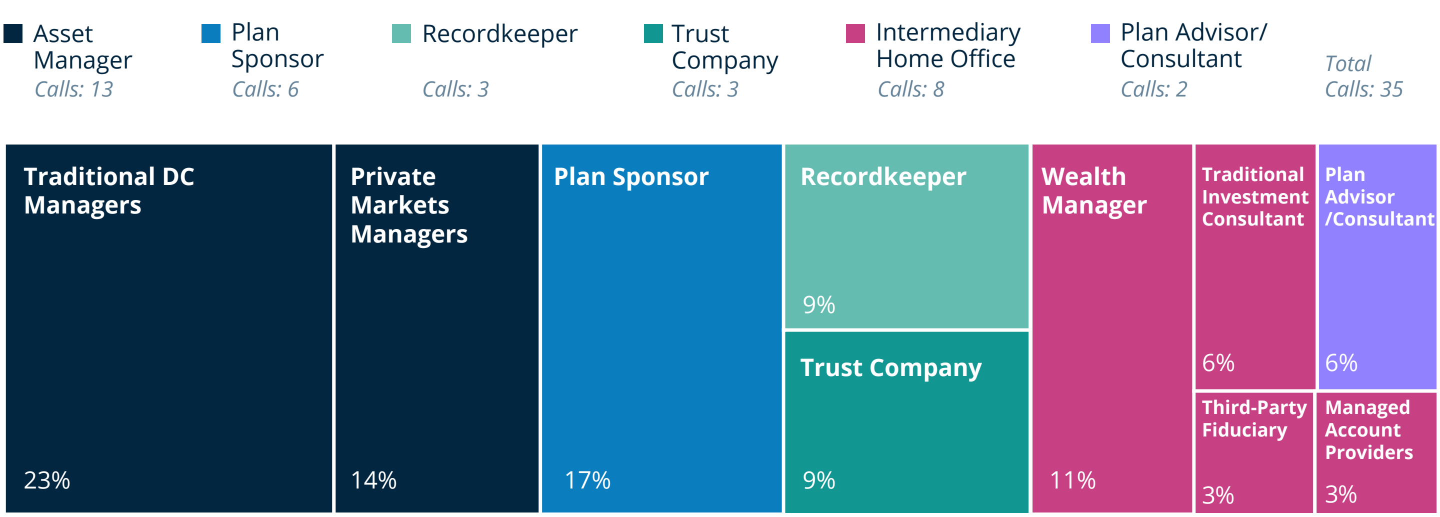
DC ecosystem participants (*e.g.*, asset managers, intermediaries, plan sponsors) largely agree that target-date products, given their broad familiarity and plan participant comfort with the solutions, are expected to be the primary method for private market access. There is widespread agreement that private market investment strategies should not be available to plan participants as standalone plan menu options. For many, this represents another step in the evolutionary process of the target-date fund (*e.g.*, addition of passive investments, incorporation of sub-asset classes such as emerging markets). Adding private market investments to target-date solutions is likely to be an important component of a natural evolution for strategies provide diversification in line with plan participant outcome needs. Managed accounts are another investment structure that can give participants a way to access private market strategies, and are often offered through personalized advice/planning services.

Product manufacturers and service providers have developed solutions including products and processes to allow private markets to embed into defined contribution plans, enhancing participant outcomes. Furthermore, some plan sponsors and intermediaries agree that including quality private market investments in target-date solutions and managed accounts expands the investment universe, may reduce volatility, and may improve returns. There is also agreement that DC plan participants' long-term investment horizons are aligned with the long-term nature of private market investments. Despite agreement on the potential for benefiting participants, the inclusion of such solutions in DC plans at scale hinges on overcoming stakeholder myths and concerns about private markets. Recent executive action and expected regulatory guidance may serve as a tailwind for greater market adoption of investments that integrate private market strategies.

Definition

Participant Investment Option (PIO): A PIO may be a single manager, asset class, or strategy, or a multi-asset approach such as a target-date solution or managed account. Each is separately managed solely in the best interest of participant investments in that PIO, including for liquidity purposes. They may have multiple components (such as asset classes) and multiple managers/funds within each component.

Executive Interviews by Firm Type, 2025



Source: Cerulli Associates

SECTION 1

Current State of Private Markets in DC Plans

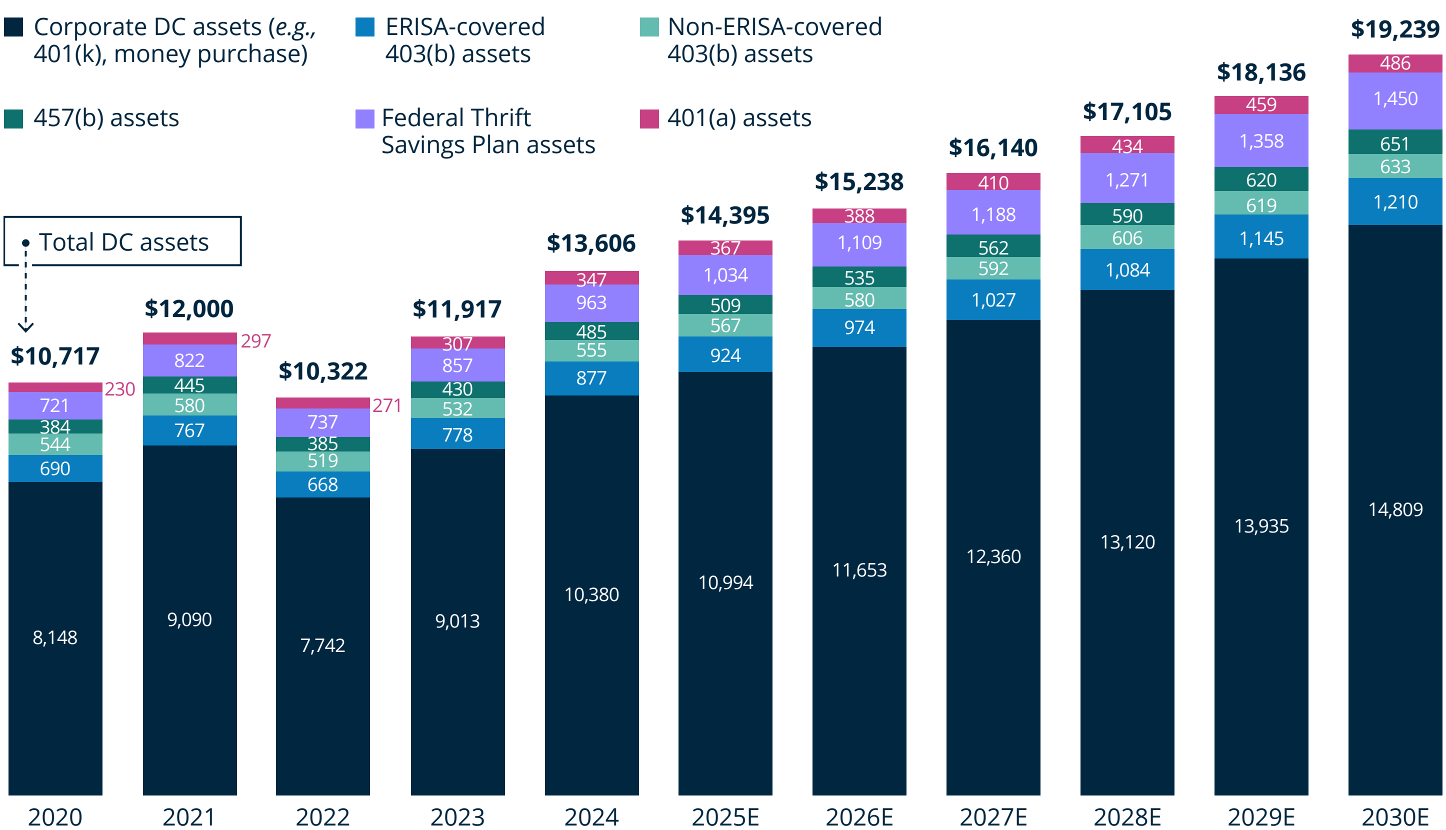
DC Market Sizing

As of 2024, the total DC market, including corporate and nonprofit plans, stands at $13.6 trillion and is expected to reach $18.1 trillion by 2029, representing a 33% increase in total assets over the next five years. The great majority of defined contribution assets are in corporate DC plans. With $10.4 trillion in assets, corporate DC plans account for three-quarters of total assets. Cerulli expects corporate DC assets to grow by a similar percentage, reaching $13.9 trillion by the end of the decade. The DC market is tremendous in size, and its importance to the retirement needs of Americans cannot be overstated.

A significant portion of DC assets are are in target-date products. According to an ICI/Brightscope report, nearly 90% of 401(k) plans have a target-date investment option, covering 86% of 401(k) participants. With most plans designating a target-date product as their qualified default investment alternative (QDIA), these professionally managed investment options capture a significant portion/majority of participant contributions. Nearly two-thirds (65.2%) of 401(k) contributions flow into target-date products and this figure is expected to increase to 69.1% by 2030. As a result, target-date products are the largest single asset class in 401(k) plans, currently holding $3.4 trillion in assets as of 2024, which are expected to nearly double to $6.5 trillion by 2030, making up nearly half (49.0%) of total 401(k) assets.

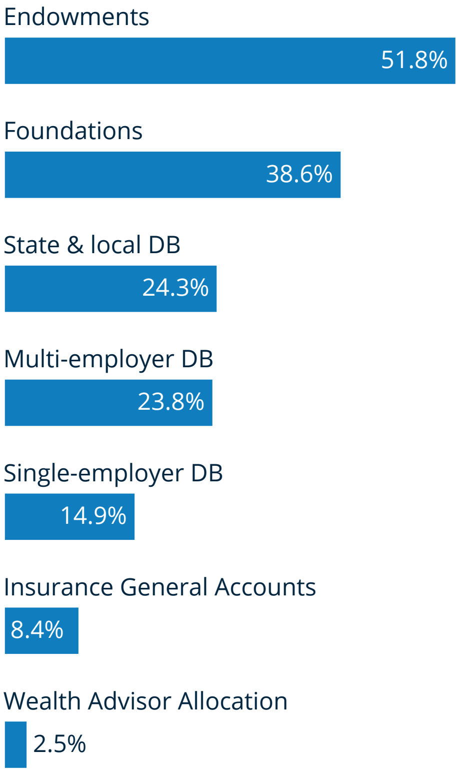
Currently, private market assets make up a very small portion of total DC plan assets. By comparison, large institutions and wealthy investors have far greater exposure to private markets and other alternative investments. Insurance companies take a conservative approach, investing 8.4% of their assets in private equity, hedge funds, and other alternative investments. Defined benefit (DB) plans allocate a greater percentage of their portfolios to alternative and private market investments, led by multi-employer, state, and local plans, which allocate approximately one-quarter of their portfolios to these asset classes. Even retail wealth management financial advisors are allocating an average of 3% to less than fully liquid alternative strategies.

Exhibit 1 | Total DC Assets by Segment, 2020-2030E ($ billions)



Sources: Department of Labor, Federal Thrift Savings Plan Annual Reports, Investment Company Institute, S&P Capital IQ MMD, Pensions & Investments, PLANSPONSOR Magazine, J.P. Morgan, Cerulli Associates | Analyst Note: Previous asset totals were restated. Assets may be restated pending Federal Thrift Savings Plan financial statement.

Exhibit 2 | Percentage Allocation to Private Markets by U.S. Client Channel, 2023



Source: Cerulli Associates | Analyst Note: Data is sorted by total assets in category. Insurance general accounts, endowments, and foundations represent averages of each channel's sub-channels.

Why Now?

Private market investments, including private equity, credit, real estate, and infrastructure, are more important to investor portfolios than ever before. For investors looking to own the market in the broadest sense, a growing component is housed in private fund structures that have historically only been accessible to institutional and very wealthy investors via their financial advisors. Increasingly, private capital firms have sought to make their strategies available to a wider range of participants through intermittent if not daily/intraday liquid structures, receiving strong interest due to the strategies' abilities to deliver diversification, downside protection, and enhanced returns at a time that capital markets assumptions suggest lower future returns from public markets. In 2024,

Definitions

Private Market Investments:

Unlike stocks, which are listed on an exchange and trade throughout the day, and public fixed-income securities that are traded via relatively liquid over-the-counter (OTC) markets, private investments encompass a broad range of assets that are not publicly listed but instead are privately held. These include privately owned companies, direct loans, real estate, infrastructure projects, and other private market assets.

Private capital assets have grown rapidly as companies have chosen to stay private longer or not go public at all, and because certain investments are better supported by private markets (an often-cited industry statistic is that 90% of companies with more than $100 million in revenues are private as opposed to public). Private investment firms often have greater latitude to implement value creation strategies, originate debt with greater agility but also greater control, and finance assets that may be overlooked or underserved by public markets. Private investment funds represent a burgeoning ecosystem of approximately $16 trillion in assets globally, according to PitchBook.

Key Private Investment Strategies

Private Equity: Ownership and active management of companies to drive operational improvements and long-term value creation.

Private Credit: Loans and debt financing provided by non-bank lenders to corporates, projects, or hard assets.

Private Infrastructure: Societally critical assets such as energy, utilities, and transportation that often offer inflation protection.

Private Real Estate: Income-generating commercial and residential properties across sectors and geographies.

Venture Capital: Earlier stage investments in high-growth technology-focused companies.

As a result of the active ownership model and necessity for control to unlock value, private capital holdings are inherently illiquid. This is a hurdle for investors who need to be able to access funds quickly, but those with long-term horizons (*e.g.*, institutions and wealthy investors) value the strategies because of their ability to generate greater returns as well as for their diversification benefits as the assets held by such funds are different from those owned via public markets.

Cerulli estimated that U.S. investors allocated nearly $2 trillion to less than fully liquid private markets strategies through their financial advisors. Investors reliant on their DC plans, particularly 401(k) plans, have broadly been unable to gain exposure to such strategies.

The greater concentration in public market indices (*e.g.*, the Magnificent Seven in the S&P 500) has also served to bolster the case for investing in assets outside such indices. Wealth management firms have rapidly adopted the strategies into their practices, with the typical advisor allocating more of their clients' assets to less than fully liquid private market strategies. It is now time to consider how the widest range of investors will access them, including via retirement accounts.

Outcomes that quality private markets strategies can deliver resonated with several of the intermediaries (*e.g.*, investment consultants, retirement plan advisors) and plan sponsors with whom Cerulli spoke. One investment consultant executive highlighted the benefit of the illiquidity premium that can come with investing in private markets: "If you think about it, [DC plan participants are not investors] that have cash flow needs daily. It's a collection of individuals that pay in for 40 years and then in 40 years they take money out. So, they can be long on assets, go private markets, take the illiquidity premium because they don't need the money to come back to them for 40 years." Meanwhile, a plan sponsor treasury executive mentioned the need to diversify their public markets exposure with private markets after their plan suffered significant asset decline in the wake of the dot-com bubble burst. It's important to note that private markets access can help investors benefit from an exceptionally long-term time horizon by accessing an illiquidity risk premium (additional return associated with investing in less than fully liquid assets), while generally maintaining liquidity at an individual participant level.

Private market investments are not new to the workplace retirement plans. Currently, single-employer corporate DB plans allocate nearly 15% of plan assets to private market investments. Some DC plans offer private real estate funds to their participants, with the controls to manage liquidity and education to help participants understand the investment option (see Section 3 for more details on current and future expected asset class usage). Private real estate in particular has historically been attractive to plan participants, at least in part due to the real asset nature of the underlying holdings being something that resonates with investors. Nuveen, for example, offers a private real estate allocation through the Nuveen Real Property Fund LP and Principal offers its daily valued US Property Account – an insurance company separate account - to all qualified DC and DB plans. Principal's planned US Property Retirement Fund will be a CIT with an 85% allocation to the property account and a 15% allocation to listed REITs. A handful of large DC plans with significant assets offer access to private investments through custom target-date or target-risk portfolios that may be managed in-house or through a target-date manager.

What is new is the concept of providing more participants with allocations to this asset class via PIOs at scale. This is an industry conversation that started several years ago, increased on the heels of a 2020 DOL information letter, and that has now progressed to product launches in 2025 due to several factors aligning that enable asset managers to offer solutions with private market allocations to DC plans. Specifically:

1. *In August 2025, the Trump Administration issued an executive order directing the Department of Labor to revisit its rules on alternative investments in defined contribution plans. The objective of the order is to provide clearer guidelines for plan sponsors that would like to include PIOs that incorporate alternative assets like private credit, private real estate, private equity, and more. The order also directs the Securities and Exchange Commission to revise regulations and guidance to allow defined contribution plans to offer PIOs that incorporate private market assets.*

2. *Legal rulings are establishing guidance within the context of existing ERISA standards. As a trust company research participant told Cerulli, "If a responsible plan fiduciary uses a prudent process to determine that an investment option under consideration for addition to the plan lineup meets the ERISA standard, it should be added, even if there are other lower-fee investment options. As illustrated by the recent Ninth Circuit decision in Anderson v. Intel Corporation Investment Policy Committee, responsible plan fiduciaries can undertake a prudent process to add a target-date fund with private market access consistently with the ERISA standard."*

3. *Industry capabilities are being developed to manage the challenges presented by using private market investments in DC plans. Asset managers have adopted the flexible and cost-effective collective investment trust (CIT) as the vehicle for offering allocations to private markets. Fund managers, private market managers, and trustees have developed the necessary operational capabilities to address liquidity, valuation, and trading.*

The oversight and control of plan fiduciaries make ERISA plans the logical place for providing regular investors (*e.g.*, not ultra-high-net-worth) with access to PIOs that include private market strategies. Plan sponsors and intermediaries bear fiduciary responsibility for the investments offered to participants. These plan fiduciaries are obligated to perform a prudent and robust process to ensure that each investment satisfies the ERISA standard for investment selection and monitoring. As part of this fiduciary process, knowledgeable fiduciaries can be expected to analyze considerations specific to investments with private market exposure (*e.g.,* liquidity and valuation).

PIOs such as target-date products and managed accounts are logical solutions for providing participants with allocations to private market assets. The industry is not suggesting plan sponsors add standalone private market products to their plan menus. Including private market investments in PIOs has several benefits/advantages for participants and plan sponsors:

- Professional asset managers overseeing DB plan portfolios often invest in private market assets. Including private markets in target-date products and managed accounts restores exposure to the full market that many others already have under DB plans.
- Participant allocations to private market assets need to be appropriate for their age and risk tolerance. Target-date products and managed accounts will ensure participants have an appropriate level of exposure within their overall retirement plan portfolio and diversification across private market asset classes.
- The scale provided through DC plan investments is significant. These PIOs offer advantages to participants that are not available through retail investing. Participants can access a larger, more diversified pool of private market assets when investing through a PIO. In addition, the fees charged for these exposures may be lower than they would bear individually.

ERISA Standard for Investment Selection and Monitoring: Decision-making on investments that can be included in private sector retirement plan lineups is governed by the ERISA fiduciary standard, described by the U.S. Courts of Appeal as the "highest under the law." The ERISA fiduciary standard mandates that plan fiduciaries perform a prudent process to select investment options reasonably determined to maximize risk-adjusted financial returns for plan participants and beneficiaries. This standard applies to all investment management decisions regardless of asset type or whether the investment has public or private market components.

This standard does not require plan fiduciaries to select the lowest-cost investment option. While in recent years, there has been scrutiny of investment option fees, in part due to a hefty volume of lawsuits against plans that allegedly offered expensive investments when lower-cost options were available, the ERISA standard provides that an investment option can be selected if it is reasonably determined to maximize risk-adjusted returns—net of fees.

Current Regulatory Actions: The executive order signed by President Trump requires the DOL and SEC to provide guidance to plan sponsors on the inclusion of private market investments in defined contribution plans. Such guidance will provide greater regulatory clarity for plan sponsors, with the understanding that such strategies already can be and are implemented in DC plans.

DB-ification of DC: Defined benefit (DB) plans were once a meaningful source of guaranteed income for workers. As companies have frozen or closed plans, fewer workers are able to count on this stream of income in retirement. As a result, workers have had to increasingly rely on DC plans, most of which do not offer a guaranteed income product.

Industry stakeholders are seeking solutions that restore some of the benefits associated with DB plans within a DC plan, which is sometimes referred to as the "DB-ification of DC." Plan sponsors, asset managers, and intermediaries are shifting their focus from helping participants accumulate assets to helping them draw down their assets in retirement, using their savings to create an income stream. Providers are developing investment products and planning solutions to help participants balance a need for generating income throughout retirement with adequate exposure to maintain or grow their principal.

The inclusion of private market strategies in DC plans is another component of the DB-ification of DC. DB plans themselves heavily leverage private market strategies (as shown in Exhibit 2). In a DC plan, private assets can be used by participants as another income-generating asset class and can also be incorporated into income-focused products.

SECTION 2

Busting Myths About Private Markets in DC Plans

The conversation around adding private capital investments to DC plans has at times been negatively impacted by misperceptions driven by confusion about private markets and how they would be implemented into plans as well as the impacts to plan options and plan participants. Plan sponsors, investment consultants, and retirement plan advisors are open to learning more about the PIOs incorporating private markets, even if they report they are unlikely to switch, for example, their passive target-date fund that currently acts as the plan QDIA. Incorporating asset allocations that provide participants with exposure to a fuller investment universe that has the potential to improve participant outcomes is important to plan fiduciaries. Few stakeholders objected to the idea of increasing diversification and potentially higher returns.

Incorporating private market allocations into PIOs such as target-date products and managed accounts is a relatively new concept for the majority of DC plan sponsors. As such, there are several concerns and questions that come up frequently about these new solutions. Chief among these myths are the following:

MYTH **ONE**

Plan participants will invest directly in private equity via the plan menu.

Private markets have long been used by large institutions and ultra-high-net-worth investors, frequently with the assistance/guidance of investment consultants or wealth managers. In nearly all cases, these investors have a high degree of investment sophistication and knowledge of private markets to evaluate, select, and monitor these investments. However, most retirement plan participants do not have the capabilities (investment eligibility or financial sophistication) to make an informed decision to invest in private markets themselves or access to financial advisors who can help. According to Cerulli's U.S. Retirement End-Investor report, three out of five retirement plan participants do not work with an advisor.

Providers are not suggesting plan sponsors add standalone private markets products to their core investment menu and leave participants to decide whether and how to invest in the option. Rather, the solutions proposed provide professional management and oversight to enable participants to access these assets. If included in a plan menu, a participant will only be able to access private markets through a PIO, notably (1) target-date products or (2) a managed account. In the case of target-date products, allocations to private markets will be professionally managed in a similar fashion to equity and fixed income based on their selected target-date vintage. Managed accounts will incorporate additional factors to fine tune allocations to private market assets based on a participant's planned retirement date, risk tolerance, investable assets, and more.

MYTH **TWO**

Private markets are illiquid, hence participants will not have access to their retirement plan assets when they need them.

Private equity, credit, and real estate investments are considered illiquid. While institutions that are experts at managing their liquidity and private wealth investors who work with advisors are considered well suited for such investments, it's recognized that plan participants may need funds immediately. Some sponsors worry that participants will not be able to access the portion of their portfolio that is allocated to private market assets, whether it be through a target-date product or managed account.

Asset managers, including private markets managers, and their CIT trustees are working together to build solutions for enabling the levels of liquidity to which the DC ecosystem is accustomed. Asset managers may use evergreen/semi-liquid funds (*e.g.*, interval funds) as a base for the private markets exposure - avoiding the challenges associated with the J-curve return profile of drawdown funds. While some managers plan to maintain quarterly liquidity in their underlying private market strategies, plan participants themselves will likely still have daily liquidity via the other underlying funds. Through the design of PIOs, managers have developed several ways to provide DC plans with liquidity.

Off-the-shelf target-date funds and other multi-asset-class solutions (including custom target-date product or managed accounts) offer an advantageous approach due to the ability to manage liquidity at the target-date product level, in addition to the individual private market strategy sleeve level. The glidepath or asset allocation manager can implement liquidity using the other public strategies within the target-date product, allowing the private markets strategy sleeve to remain a pure exposure. Alternatively, the private market strategy sleeve can offer liquidity when managers wrap their strategy inside a CIT with either a cash holding or a public strategy (*e.g.*, 80% private equity, 20% cash or public equity). Some have considered using both levels to gain the requisite liquidity. Conversely, in a managed account or advisor-managed account, each individual private markets exposure would need to have its own liquidity sleeve. In this instance, as with offering liquidity at the sleeve level of a target-date product, there is potential to make the exposure less concentrated than the original strategy.

MYTH **THREE**

Including private market assets in a plan increases the risk of being sued for a fiduciary breach.

Litigation has become a disappointing fact of life for large and mega plan sponsors, but research participants expect regulatory guidance will empower plan sponsors and other fiduciaries to implement a wider range of investment options for plan participants in accordance with ERISA standards.

While plan sponsors will remain concerned about legal exposure, robust education around implementation design, third-party oversight, and real-world analogues will, over time, help shift sentiment to confidence in implementing exposures that deliver positive retirement participant outcomes. An industry expectation exists that with time and successful private market strategy implementation in DC plans, litigation risk will be refined to focus on ensuring that such strategies are included with proper oversight, with some participants going as far as to say that litigation risk will over time be transformed to focus on those plans not offering access.

MYTH **FOUR**

Private market assets are not valued on a daily basis, making them unsuitable for DC plans.

DC plan investments largely moved to daily valuation decades ago. In the years since, plan sponsors and their participants have grown used to seeing their retirement investments valued each day, with a gain or loss posted alongside each investment in their accounts. In the case of mutual funds, participants are also able to look up most of their investments online and track their performance, if they so choose. Private market assets are not valued on a daily basis because of a lack of available inputs (private company stakes do not trade on an exchange every millisecond like public equities). This lack of daily valuation is often pointed to as either an operational (*e.g.*, reporting) challenge or a potential inequity for those buying/selling assets before or after valuations occur. This

perception, however, overlooks that private market assets will remain a small portion of DC plans, significantly mitigating the risk from individual valuation shifts within a broader portfolio of public and private market assets. Just as importantly, procedures are being implemented to use market factors to provide the most accurate, up-to-date, reporting possible.

Those building products to offer private markets investment access (*e.g.*, asset managers, CIT trustees) —with the help of valuation agents—are creating processes using direct valuations and sophisticated estimation processes using indirect valuations to allow for the overall product and PIO to strike a daily NAV. This allows for mitigation of true-up risk (*i.e.*, adjustments to the fund NAV as actual underlying valuation changes are accounted for on monthly or quarterly basis, against the estimates considered on a daily basis) that can be associated with private market strategy valuations. A 2025 Cerulli survey finds that 59% of private markets managers looking to offer their strategies in the DC space plan to use a combination of third-party valuation and internally derived asset pricing to support the valuation process.

SECTION 3

Incorporating Private Markets in DC Plans

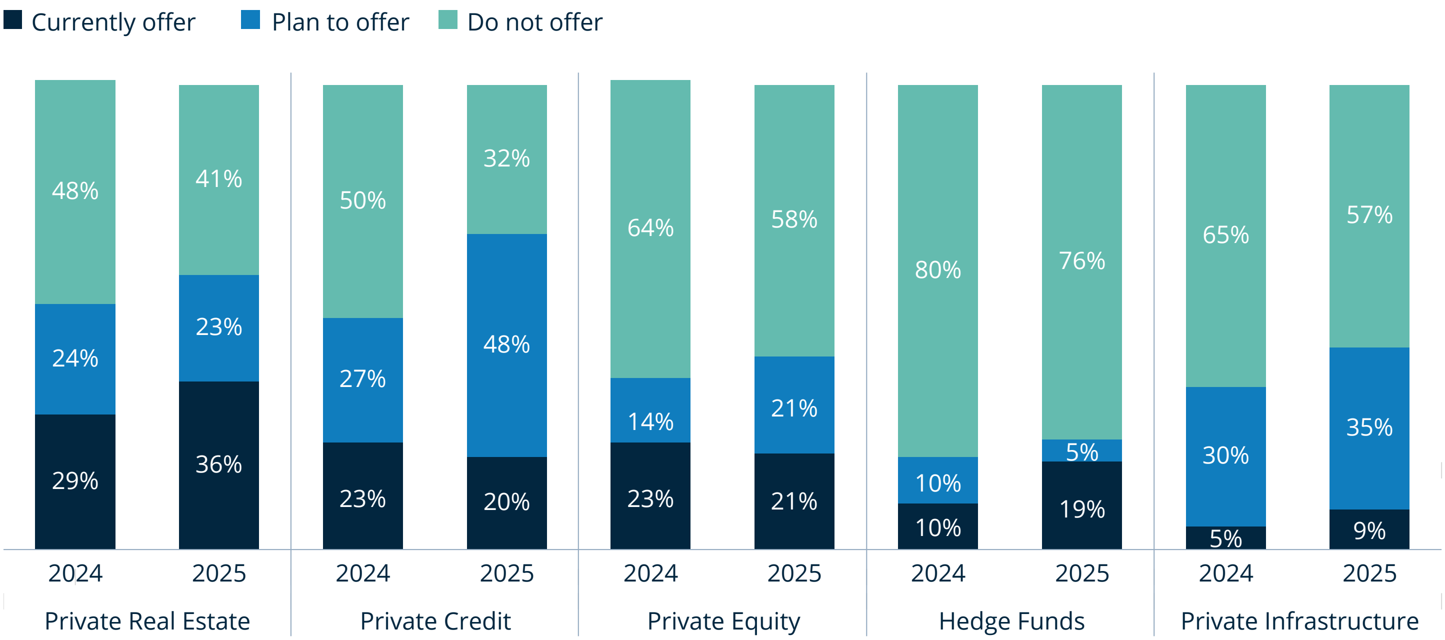
As the DC ecosystem continues to grow in importance as a retirement savings vehicle for individuals, proponents seeking to make private markets exposure available must carefully consider how they do so. This includes building products and solutions that can deliver the desired outcomes while best integrating into the existing regulatory and operational frameworks. Creating paths of least resistance for adoption is highlighted as a guiding principle, especially as recordkeepers largely agree they are ready to support this goal, assuming the incorporation of private markets does not significantly disrupt their existing processes. In this section, Cerulli examines the types of strategies under consideration, as well as the PIOs that product manufacturers are considering using to make strategies available to DC plan sponsors and their participants.

Prioritizing Strategies That Work Best in the DC Ecosystem

Currently, private real estate strategies are the most commonly used private markets strategies within the DC channel. As previously noted, there are several target-date managers that have incorporated these exposures into their glidepaths. It has been gaining traction and is becoming more established. Private credit is seen as the next and most accessible leg as it offers higher yields with lower interest risk (and perhaps greater perceived safety relative to other fixed-income exposures). A sizable 48% of managers plan to offer private credit strategies to the DC channel, on top of the 20% currently doing so.

Meanwhile, private equity and infrastructure are important asset classes that research participants note, given their ability to offer greater returns and diversification, amongst other outcomes. Managers of such strategies have historically raised capital exclusively through institutional and ultra-high-net-worth (UHNW) investors, but with the evolution of product structures (*e.g.*, the rise of intermittent liquidity product like the interval fund which offers monthly or quarterly but not daily liquidity) are increasingly offering strategies to those who otherwise would not have been able to use them without enhanced liquidity.

Exhibit 3 | Asset Managers: Strategies Managers Are Currently Offering and Planning to Offer to the DC Channel, 2024 vs. 2025



Sources: Cerulli Associates, in partnership with DCALTA | Analyst Note: Managers pursuing or planning to pursue the DC opportunity were asked which strategies they currently offer and plan to offer to the defined contribution (DC) channel in the next 12 months.

Leveraging Participant Investment Options

In seeking to incorporate private real estate, private debt, infrastructure, private equity, and other strategy types, the industry agrees that the plan participant should not have access to these strategies through a standalone fund option. During its research, Cerulli learned that the industry is focused on three main avenues for the availability of these options.

1. Target-Date Solutions
2. Managed Accounts
3. Other Options

> **We want to be able to meet [our clients] where they're at and understand what their needs are…But with that said, I would say target-date product providers [are a high opportunity] because it's a fund of funds and the providers can manage the overall allocation and potentially the liquidity concerns of the target-date product through the use of the other liquid products."**
>
> – *Executive at a Private Markets Asset Manager*

1 | Target-Date Solutions (e.g., off-the-shelf, custom)

In this approach, firms make private markets strategies available through new or existing target-date products that would be available on plan menus. While the PIO is available for a plan participant to select, a professional asset manager handles selecting and incorporating the private markets strategy within the glidepath.

Both off-the-shelf and custom target-date solutions are frequently used as qualified default investment alternatives (QDIAs) and intermediaries, plan sponsors, and participants are, or should be, aware of what the products are and how they function. Numerous managers are launching new target-date products that include private market allocations, while others have already been offering limited exposure to private real estate within their target-date products. While use of off-the-shelf target-date products is more widespread, a 2025 Cerulli survey of alternative asset managers interested in the DC opportunity finds that 96% expect private markets strategies to be implemented through a custom target-date product, more than double the next two most common options of managed accounts and off-the-shelf target-date products.

2 | Managed Accounts

Managed accounts represent a professionally managed solution that can provide plan participants with private market allocations, alongside public markets strategies, that are personalized to their age, risk tolerance, and financial situation in a holistic manner. Managed account providers act as a fiduciary and build the client portfolio using strategies made available to them. The options they have are typically a part of the plan menu, but they can also use investment options that are "off menu" and not available to plan participants. This is a critical feature and would likely be how private market CITs would be accessed, so that they would not be made available to the plan participants not using the managed account option. This sentiment is universally agreed upon by all asset managers, recordkeepers, plan consultants/advisors, and plan sponsors that Cerulli interviewed as a part of the research process for this white paper.

Wealth managers, notably RIA aggregators are also refining a type of managed account called an advisor managed account. The advisor managed account uses the aggregators' own asset allocation models to power the managed account algorithm, and they are thinking

QDIA: What is it and how has it evolved?

The qualified default investment alternative (QDIA) - introduced under the Pension Protection Act of 2006, is the investment option designated by a retirement plan to receive contributions when the participant does not make an active choice. Retirement plans can choose a target-date or balanced investment option or managed account solution. As of 2025, target-date solutions are the most commonly used QDIA by retirement plans due to their use of a glide path to for age-appropriate asset allocation and rebalancing. QDIAs continue to evolve to meet the needs of plan participants, including via the themes discussed in this research.

> **Could you see it as part of a managed account solution? Yes, absolutely. First, I think you could give a little bit more education on what the asset classes are to individuals, because hopefully they're engaged. Second, I think anything that is a professionally managed solution, an advice-led solution, [that] can get a little bit more granular on that individual's unique needs and wants in retirement works well for privates."**
>
> – *Executive at an Asset Manager*

about how they can incorporate private markets exposures into their models. In many instances, these financial advisors are already using private markets strategies within their non-qualified client accounts for their high-net-worth and ultra-high-net-worth clients. They want to replicate this approach with their retirement clients. Furthermore, these firms have embraced the use of the CIT and are comfortable with using the vehicle for their clients, thus reducing any education efforts on what CITs are and why they need to be used to wrap private markets strategies.

3 | Other Options

While few research participants referenced them as a primary avenue for providing the DC channel with access to private markets strategies, risk-adjusted model portfolios are another potential professionally constructed solution through which DC plan participants may be able to gain access. Principal's RetireView, for example, provides access to risk-based model portfolios that are constructed by Morningstar Investment Management. Each risk-based category has different vintages based on years to retirement and those individual asset allocations could provide a suggested allocation to private markets that could be implemented by the plan sponsors and their plan advisor.

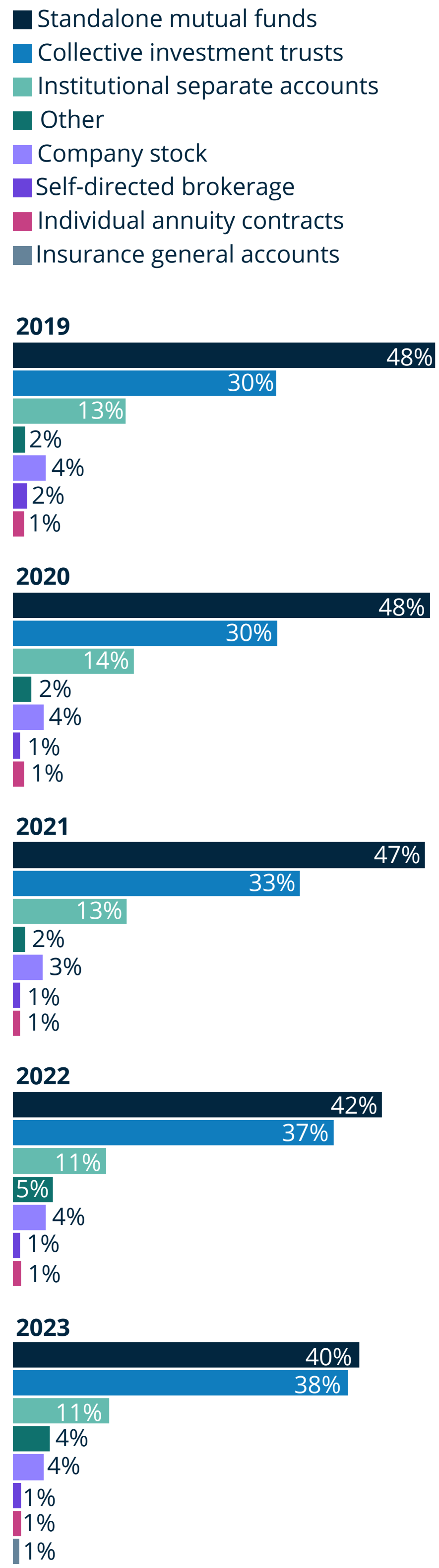
Stable value strategies, which are already used in retirement markets, represent another PIO through which managers are exploring as an avenue to provide access to private markets. In this instance, the natural strategy exposure would be private credit, as a replacement for some of the public fixed income in which stable value funds already invest.

While not necessarily a PIO, some in the industry have considered the self-directed brokerage window as an avenue for access to private markets exposure in DC plans. Plan sponsors interviewed by Cerulli are generally skeptical of the brokerage window as the rightful place for private markets product. While they feel it offers them an avenue to provide access with less fiduciary risk, a point with which some other executives would disagree, they still do not view it as an adequate solution. Perception of fiduciary risk aside, participant utilization of self-directed brokerage windows is low, thus reducing its relevancy as an avenue to provide access to private markets. If pursuing a self-directed brokerage strategy, managers will be forced to compete in the open market and required to build consumer-level awareness in order to grow allocations.

Using the CIT Structure

Unanimously, executives with whom Cerulli spoke agree that the attributes of the CIT make it the ideal structure through which to provide access to private markets within a participant investment option. The CIT's usage has already been on the rise within the DC

Exhibit 4 | 401(k) Assets by Investment Vehicle, 2019-2023



Sources: Department of Labor, Cerulli Associates
Analyst Note: Mutual fund assets include variable annuity mutual funds. "Other" includes "ETFs," "Non-core investments, Capital preservation, Fixed return investment," "Custom portfolios," "Cash," and "GIC, Loan Fund, Settlement Account." Before 2023, insurance general account was included in "Other."

channel due to its flexibility in terms of what it can hold, lower operating costs, and the potential for fee negotiability. As of year-end 2023, the CIT structure holds approximately 38% of total 401(k) channel assets, up from 30% as of year-end 2019. Examples of how the CIT can be used include CIT target-date products investing in underlying CITs that provide access to private markets strategies or private markets strategies in a CIT structure for use in a managed account by a managed account provider or plan advisor.

Unique to the CIT are trust companies that play a critical role as generally fiduciaries, and many are prepared with expertise and solutions for asset managers bringing these private markets strategies to the DC channel. However, others are more apprehensive and are still considering the role they want to play in trusteeing CITs that contain private markets exposure. For intermediaries and plan sponsors, evaluation of a CIT should include a layer of review of the trust company and specifically its capabilities related to helping facilitate liquidity, valuations, and other operational considerations.

> **You've seen obviously some recent stuff happen with [Asset Manager Name] and [Asset Manager Name], with [Trust Company Name]. Firms that have come to us, they're partnering. There are different firms that come in, and they're having a conversation saying, 'We'll do it together for you. These are the roles. This is what we're trying to do. This is the flexibility.'"**
>
> – *Executive at a Wealth Manager*

Evaluating Partnerships to Ensure They Deliver the Best Outcomes

While not the only way forward, the need to have best-of-breed capabilities in the complex, sophisticated asset classes of private markets, coupled with the expertise needed to stand up and offer a CIT, are enough for many firms to consider partnerships when looking to bring private markets to DC plans. Layer in the need for relationships and knowledge of the various firms that help make the DC ecosystem work, and there are few firms that can manage to do it themselves successfully. For the rest, forming partnerships allows them to offer best-of-breed solutions to enable participant access to private market allocations.

CIT trustees are at the heart of many of these partnerships, generally providing fiduciary oversight, bringing critical operational capabilities (*e.g.*, reporting, fact sheet creation), onboarding clients, among other roles. The CIT trustee often works with an asset manager that is responsible for creating the glidepath and identifying underlying strategies to fill each exposure that the glidepath calls for. In an open-architecture strategy, this will include both proprietary and non-proprietary strategies (*i.e.*, strategies managed by other asset managers).

Innovative partnerships should be backed by significant due diligence done between both parties to ensure an optimal fit. These partnerships broadly need to exist to bring best-of-breed capabilities to DC plans and, through PIOs, their participants. It would be incorrect to assume that the firms pursuing partnerships will eschew building strategies outside of that construct. Because the market may demand open-architecture strategies in the future, it's likely that asset managers seeking inclusion in DC product will seek multiple avenues. This can include striking multiple partnerships or simply ensuring that their strategy is available for inclusion into other managers' strategies outside the partnership construct.

SECTION 4

How to Start Using Private Markets in a DC Plan

Plan sponsors have expressed interest in the topic of private market investments in DC plans. According to Cerulli research, one in four sponsors have had conversations with their investment consultant or retirement plan advisor about adding a PIO that incorporates private market investments. Retirement plan advisors and investment consultants note these conversations focus on educating plan sponsors about the asset class and the investment options a plan sponsor could adopt/utilize to make private markets available to their plan participants. While there is a degree of awareness and interest, most plan sponsors and their intermediaries are adopting a wait-and-see approach to adding target-date products and managed account options that allocate to private markets.

Evaluating and selecting PIOs can be challenging when they provide exposure to relatively straightforward asset classes or strategies. The scrutiny applied by plan sponsors and intermediaries increase for QDIAs, such as target-date products, given the proportion of plan participants investing in that particular PIO. The incorporation of private market asset classes in a target-date fund or managed account understandably raises new questions and some additional complexity for plan sponsors offering such an investment option.

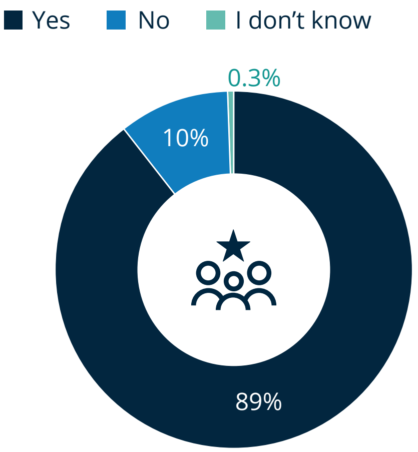
As enthusiasm and adoption by plans grow, concerns around litigation, fees, operational integration, and fiduciary oversight, whether substantiated or not, present important considerations for fiduciaries. Beyond greater clarity via regulators and flexible structures that help fit private markets within existing operational and liquidity constructs, these concerns will be met by credible communication tailored to the needs, responsibilities, and influence of key decision makers in the DC ecosystem. This section highlights several key steps plan sponsors and their intermediaries can take to use PIOs that offer exposure to private markets.

Intermediaries Are Well Positioned to Assess Participant Investment Options

Plan sponsors that are interested in adding a PIO that includes private market assets to their investment lineup should consider having a conversation with their retirement plan advisor or investment consultant. Approximately 90% of sponsors work with a retirement plan advisor or investment consultant, according to Cerulli's 2024 Plan Sponsor Survey. Plan sponsors working with these intermediaries highly value the help they provide with selecting and monitoring PIOs. This same expertise can be leveraged by plan sponsors to evaluate target-date and managed account options that include private market assets.

While the introduction of a new asset class requires additional scrutiny, plan sponsors and their intermediaries should not abandon established due diligence process and investment evaluation criteria. Evaluating fees, long-term performance, management strategy, and other factors are still important. Plans considering POIs that incorporate private market assets can work with their intermediary to identify

Exhibit 5 | 401(k) Plan Sponsors: Advisor or Consultant Use, 2024



Source: Cerulli Associates | Analyst Note: Percentages may not sum to 100% due to rounding.

Definitions

Intermediaries: Firms, including investment consultants or retirement plan advisors, that assist plan sponsors in a 3(21) or 3(38) fiduciary capacity. Responsibilities can include investment selection and monitoring, plan design, participant education, and more.

Investment Consultants: Firms such as NEPC, Mercer, or Callan that typically work with large plan sponsors and offer both 3(21) and 3(38) services. In addition to retirement plan consulting, these firms may also offer OCIO (Outsourced Chief Investment Officer) services to retirement plans and large institutional investors, benefits and compensation consulting, and participant communication consulting.

Retirement Plan Advisor: A range of firms that range from wealth-focused (Morgan Stanley, Merrill Lynch, LPL) to retirement plan specialists (CAPTRUST, Sageview, independent RIAs) that typically work with mid-sized and small plans. Like investment consultants, they can provide both 3(21) and 3(38) services.

Exhibit 6 | 401(k) Plan Sponsors: Factors Considered When Evaluating Target-Date Funds, 2024

Source: Cerulli Associates
Analyst Note: Respondents were asked, "What are the top-three attributes you consider when selecting a target-date fund?" Respondents could select up to three options.

other key areas to evaluate, potentially reviewing the investment process of the private markets manager, how participant assets will be allocated to these asset classes, and how the asset managers and trust companies work together. One executive at a retirement plan advisory firm echoed this: "If it's embedded in a target-date sleeve, for example, we can do the same due diligence we would normally do on the target-date product and just pay special attention to that [private markets sleeve]. But the rest of our process sort of follows suit from a fiduciary perspective of that consistent repeatable process that we're trying to identify and score and all that."

Private Market Fees Should Be Considered in Context

The perception that private market strategies are prohibitively expensive remains a chief hurdle to adoption in the DC market. Plan sponsors are keenly aware of the fees associated with their investment lineups and continue to take steps to reduce costs by pursuing less expensive share classes, vehicles such as CITs that provide lower costs, and passive strategies, where appropriate. One plan sponsor told Cerulli their plan is pursuing a zero-basis-point expense ratio for its already low-cost target-date product. While not dictated by ERISA guidance, plan sponsors have placed significant emphasis on fees, increasingly adding lower cost investment options.

Private markets, however, consist of highly differentiated asset classes managed by specialist firms and can be viewed as a potential source of additional market return or a source of diversification. The downside is that private market assets are inherently more expensive to offer due to their greater operational lift (*e.g.*, deal sourcing and due diligence versus buying securities on an exchange). Adding private market strategies to DC plans is likely to increase fees paid by plan participants, especially in cases where they were using low-cost passive solutions, but it is expected to provide value via improved, fine-tuned outcomes. Retail financial advisors have long selected strategies that may cost incrementally more than a low-cost index tracker but provide important outcomes such as downside protection in volatile markets.

Providers are taking steps to mitigate the fees associated with offering private market strategies within a DC plan. For one, implementation is taking place within the lower-cost CIT structure. Another mitigation is the strategies that are being implemented. Where private credit can be more expensive to offer, for example, managers may be able to weight the portfolio toward investment-grade private credit, where fees can be lower but still provide a greater spread relative to public credit. As such, it's possible that the DC solutions being accessed by DC plan participants will cost less than the strategies being accessed by wealthy investors through their advisors.

Cerulli finds that while product fees will remain an important factor, plan sponsors are increasingly recognizing their role in prioritizing long-term investor outcomes through the lens of value delivered and are considering diversification benefits and greater return opportunities. These sponsors recognize that the focus must extend beyond fees to the outcomes offered by the solutions—an approach that many research participants emphasize is in line with ERISA guidance. Advocates for incorporating private markets cite the benefits of increased diversification and that the potential for better risk-adjusted returns may justify the added cost.

Assessing Performance Through Appropriate Benchmarks

Plan sponsors and their intermediaries should work with providers in the retirement market to obtain support and guidance when benchmarking PIOs that incorporate private market assets. As with any new PIO, it will take time for industry participants to determine the optimal approach to benchmarking. Target-date solutions and managed accounts incorporating private markets will initially require a more significant lift given the scarcity of data and multiple available performance metrics. Benchmark providers such as MSCI (which has acquired Burgiss, a provider of data and analytics) and consultants such as Cambridge Associates are focused on offering private investment benchmarks that can be used by fiduciaries to better ascertain portfolio impacts and measure implementation success.

For intermediaries that want to be on the leading edge, helping plan sponsors understand these new PIOs offers an important opportunity for engaging with plan sponsors to provide education and clarity. In the event a plan sponsor is keen to delve deeper, being able to show how private markets allocations work and impact participant outcomes can be advantageous for plan intermediaries that invest the time and energy needed to understand what is being brought to market.

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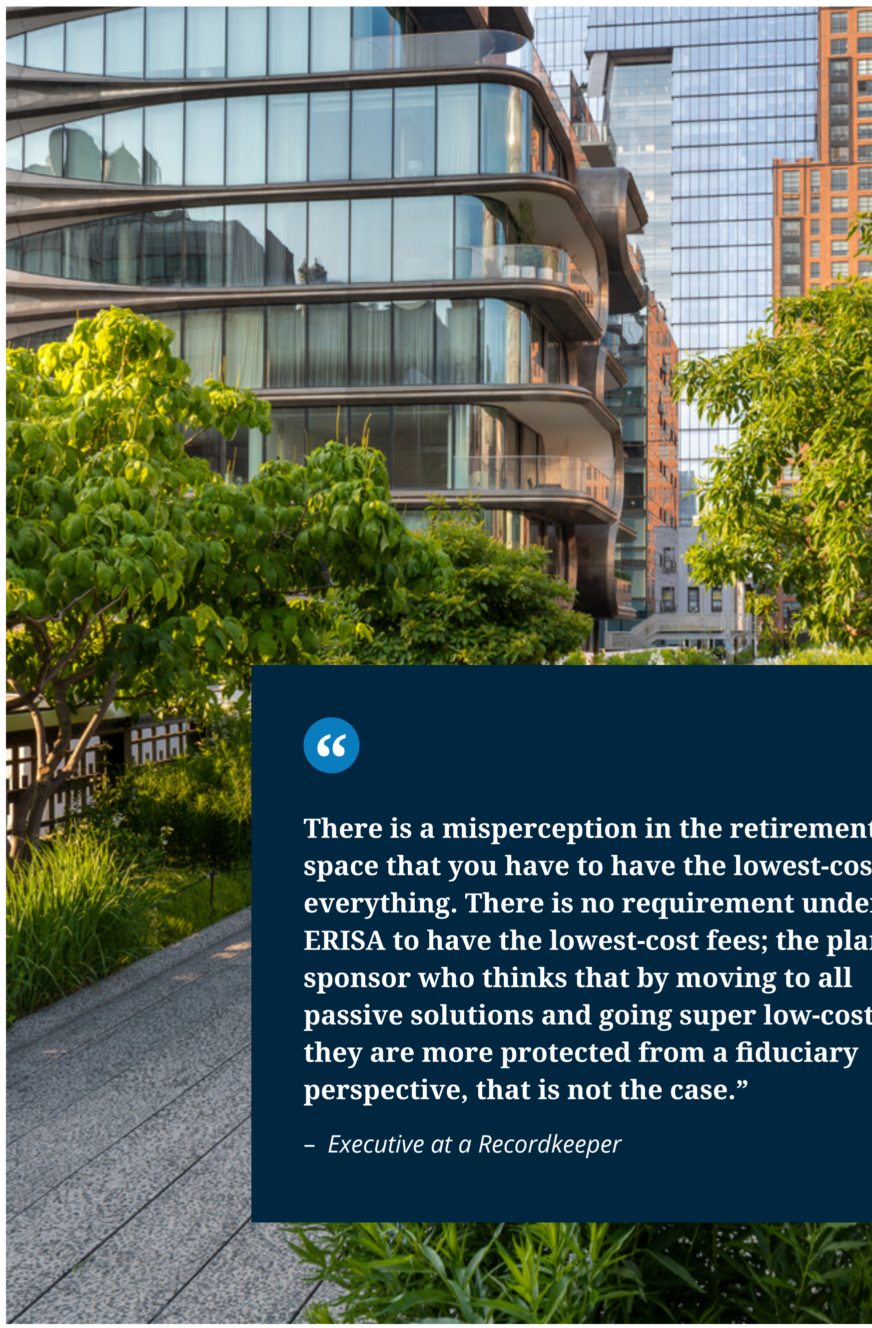
> **[Plan sponsors] also need a paternalistic mindset and an engaged investment committee willing to look past the lowest possible expense ratio, which has traditionally driven how target-date and white-label funds are built. You need to focus on net-of-fee participant outcomes, not just cost.”**
>
> – *Executive at a National Investment Consultant*



> “
>
> **There is a misperception in the retirement space that you have to have the lowest-cost everything. There is no requirement under ERISA to have the lowest-cost fees; the plan sponsor who thinks that by moving to all passive solutions and going super low-cost, they are more protected from a fiduciary perspective, that is not the case.”**
>
> – *Executive at a Recordkeeper*

Conclusion

The efforts of a wide variety of DC industry stakeholders including asset managers, recordkeepers, trust companies, valuation specialists, and consultants, among others, are aimed at offering asset classes and outcomes to retirement plan participants that are important to access but unavailable in public stock and bond markets. Such private investments have grown to represent a larger component of investable markets, while plan participants have grown tremendously reliant on DC plans to meet their retirement obligations. Plan participants will be able to benefit from private market asset classes offering diversification, downside protection, and greater returns, as their plans will offer more comprehensive strategies more in line with those used by financial advisors and institutional investors.

Private markets strategies are expected to be implemented as part of a PIO (*e.g.*, target-date product, managed account) and not as offered as a standalone option for DC plan participants. While media coverage sometimes portrays private market strategies in 401(k) plans as a risky investment option, industry efforts are aimed at the risk-managed inclusion of pertinent asset classes that are fine-tuned to the glidepath of a multi-strategy offering or an asset allocation of a managed account. The CIT structure that is increasingly used today will become the *de facto* structure for accessing private market strategies in DC plans, resulting in a plan participant user experience that is exceptionally like if not the same as what they experience today. Because no one method has been agreed upon for implementing private market strategies (*e.g.*, custom target-date versus risk-based solution versus multimanager core public and private asset class funds), it will be important for plan sponsors and intermediaries to evaluate the universe of available products.

The industry has already overcome key operational hurdles to the inclusion of private market strategies in DC plans via product development focus on fitting them into the same framework as public market strategies, with the understanding that the underlying assets—in not being traded on an exchange—are different. Trust companies, asset managers, and private markets managers have developed, and continue to refine, solutions that will provide participants with liquidity by managing the gating and illiquidity features of private market strategies that is embedded in a PIO, while to the greatest degree possible limiting the dilution (and positive return impact) of including private markets in a more liquid construct. As such, plan participants could be positioned to benefit—including via greater returns—from the exceptionally long-term time horizon with which such plan contributions are made. Similarly, valuation frameworks have been developed to smoothen the impact of holding private market assets within a structure that still offers daily pricing and liquidity.

Research calls have surfaced several myths among intermediaries and plan sponsors, and the DC industry should engage in an exercise of myth busting, like that discussed in this research, to help dispel concerns that still exist. Many shared misconceptions (*e.g.*, participants will invest in private equity via the plan menu) and concerns have been addressed, but these solutions remain under-communicated.

While it's easy to over-extrapolate from dissimilar retirement schemes and with understanding that differences exist for a reason, industry stakeholders considering adding private market solutions to PIOs can look to examples from other institutional investors in the U.S. market (*e.g.*, state and local DB plans) and retirement schemes in international markets (*e.g.*, Australia, United Kingdom, Netherlands) to understand best practices and potential outcomes.

Cerulli believes that as private capital markets grow, it will become more important for investors—including DC plan participants—to have access in a diversified, professionally managed manner. The efforts discussed in this research will support this long-term transition toward such plans offering more holistic market access via differentiated asset classes and needed outcomes.

DCALTA Principles

As part of our ongoing mission to educate DC stakeholders, DCALTA published the *Principles For DC Stakeholders On The Consideration And Use Of Private Market Investments* in July of 2025 to provide a structured and logical framework to navigate the complexities associated with integrating private market assets into DC participant investment options (PIOs). These DCALTA principles cover PIOs that are either within or outside DC core plan menus.

See full principles →

Fiduciary Process

DCALTA believes that in discharging its fiduciary responsibilities to provide participants with effective retirement outcomes, fiduciaries might consider not only public assets but also private assets.

- Private market solutions should be treated consistently with other asset classes commonly used in retirement plans. The Department of Labor has made it clear that fiduciary standards apply to all asset classes, no more or no less because of the type of asset classes.
- Every asset class has its own unique characteristics that may be blended in a variety of combinations to provide beneficial diversification. Private market investments, like other asset classes, have distinct characteristics that can be identified and evaluated via investment analytics.
- ERISA permits many frameworks for the assignment, assumption and delegation of fiduciary duties. Because of this flexibility, private market solutions can be managed and overseen by plan fiduciaries, intermediaries, or third parties with beneficial skill sets identified by plan fiduciaries.
- While there are many types of investment policies, adaptable and flexible investment policies can facilitate the use of a wide range of beneficial investments, including private market solutions.
- Established due diligence and disclosure processes provide a robust framework for disclosing investments that use public, private, and other innovative investment solutions.

Value for Money

Decisions regarding value for money, when considering private markets in the DC space, may be addressed by the following.

- Recognizing that retirement plan investments are earmarked for long-term benefits to plan participants and beneficiaries, is the investment expected to enhance net returns taking into account the underlying risk of the investment and its diversification benefits?
- In evaluating private markets or any investment, investment cost is not the sole determining factor under ERISA. To the extent cost is considered, comparisons may be made within the asset class and not across asset classes.

Asset Class Distinctions

- A diversified portfolio is by design exposed to a wider range of risks, but at less concentrated amounts than less diversified portfolios exposures.
- The alternatives investment universe includes diverse categories of private investments, one or more of which may enhance the diversification of a plan's QDIA or other designated investment alternative. Diversification of asset classes is a key principle of ERISA.
- Private markets investments can be evaluated by their investment characteristics and the role they play in the portfolio (such as income, growth, diversification) in determining how best to utilize them as part of a defined contribution investment solution.

Operations

The implementation of private markets investments into defined contribution plans may prudently take different operational approaches in PIOs that dictate private markets exposure.

- Liquidity. The benefit of an illiquidity premium may be balanced with the need to maintain sufficient liquidity for participant flows and allocation decisions. For further guidance, see DCALTA white paper "Liquidity Framework For Inclusion of Alternative Assets in DC Plans: A Guide for U.S. Plan Sponsors and Industry Stakeholders", published October 2023.
- Valuation. The valuation of illiquid investments occurs within the broader allocation for a fund the participant is accessing, where daily valuation is the norm. There are a number of solutions for valuation of private market investments that can be used to support this industry process.
- Other Operational Factors. Greater adoption of private market investments can benefit from improved operational compatibility with public assets in multi-asset funds, as the industry moves toward operational standardization, where appropriate.

Participant Communication

- Communication materials should seek to disclose general information on the private asset classes and characteristics of private market investment exposure within PIOs, with disclosures varying based on the level of materiality.

Cerulli Research and Consulting

For over 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Cerulli Associates is a research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

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DCALTA
10 YEARS | Defined Contribution Alternatives Association

The retirement plan landscape is constantly changing with regulatory mandates, product innovation and new approaches to investment strategies. These types of changes can have an impact on plan design, investment menus, and ultimately, fiduciary decision-making.

DCALTA is an industry organization which was created to help bridge the information gap on how to effectively incorporate non-traditional investments into defined contribution plans.

dcalta.org /dcalta